

Exhibit 12

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Hong Kong finds Citron Research's Andrew Left guilty of issuing false report in 2012 on Evergrande

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Short seller may be barred from trading Hong Kong equities for up to five years

Andrew Left, head of short seller Citron Research, has been found guilty by Hong Kong's Market Misconduct Tribunal of publishing a "false and misleading" report in 2012 about Chinese developer [China Evergrande Group](#) [1].

The maximum penalty for the misconduct is a ban from trading Hong Kong's stocks for up to five years and have to hand in the profit he has made. The tribunal will issue its ruling at a later date, according to the tribunal ruling report released on Friday.

This is the first time the Hong Kong tribunal, chaired by Mr Justice Michael Hartmann, has made a ruling against a short seller report, and also marks the Securities and Futures Commission's first such action against activist short-selling firms.

Short sellers sell borrowed shares and then buy them back at lower prices, pocketing the difference. They find holes in the books of listed firms and then rely on securities traders and the media to spread the word.

The SFC investigation found Left made a profit of about HK\$1.7 million by shorting 4.1 million Evergrande shares before issuing a scathing report on the company on June 21, 2012. The company has now been renamed China Evergrande Group.

Shares in Evergrande slumped 19.6 per cent following the release of the report before closing the day down 11.4 per cent, against a 1.3 per cent drop in the benchmark Hang Seng Index.


"In all the circumstances, the Tribunal is satisfied that, when he published the [Citron Report](#) [2], Mr Left consciously disregarded the real risk that the report was false and/or misleading as to material facts. He was reckless in his conduct," according to the justice's judgement report issued on Friday.

[The 113-page judgment report](#) [3] posted on the Tribunal website on Friday, said it ruled in favour of the Hong Kong regulator, the Securities and Futures Commission, which took the legal action against Left.

The regulator, it said, considered "the information in the Citron report was false or misleading as to a material fact, or was false or misleading through the omission of a material fact: the company (Evergrande) was not insolvent and nor had it consistently presented fraudulent information to the investing public".

"In compiling and publishing the Citron Report, Mr Left failed to exercise that level of care to avoid the inclusion of false and/or misleading information as to material facts that is realistically

required of a reasonably prudent person who has chosen to carry out the function of a market commentator and/or analyst," Mr Justice Hartmann said in


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his ruling report.

“Alternatively, therefore, he was negligent.”

Left, who is based in the United States, did not attend the hearing in Hong Kong, which started last year, and only sent a legal representative on his behalf.

The tribunal report also unveiled details on why Left, who is based in the US and never investing or commenting on any Hong Kong stocks before, issued a report on Evergrande.

During the hearing, Justice Hartmann heard that on March 2012, Left received a package in the United States with no return address nor identification of the sender, containing a 68-page draft analysis on Evergrande.

“The analysis (‘the draft’) was formatted in the same racy ‘tabloid’ format that Mr Left chose to use in his publication. It also made the same serious allegations of insolvency and various forms of accounting fraud,” the judge’s report said.

The tribunal report indicated that Left had said in an email in August 2012 that, “After reading through the documents I believed that it was a story that should be told.

“After eliminating all information that could not be verified, I updated the numbers and released the report.

I did not have ANYONE in China doing any of the work. Everything was pulled off the internet and from company filings.

“Everything was public information; all they had to do is read my report to see that the only person who helped me with the report was one Chinese student living in the United States.”

Justice Hartmann said Left had made the allegations “recklessly or negligently with no understanding of the Hong Kong accounting standards that applied and without checking them with an accounting expert or seeking comment from Evergrande”.

According to Left, he told the tribunal via his lawyer that he did not accept the contents of the package at face value, but went through a verification exercise, eliminating “all information that could not be verified”.

However, Justice Hartmann said “no evidence was placed before the tribunal to indicate he chose to obtain expert advice on appropriate regulatory restrictions, especially applicable accountancy standards, to which Evergrande would have been subject.

“If what was sought was a carefully weighed, objective analysis, as opposed to one being employed essentially as a short selling weapon, the decision not to seek advice was, in the judgment of the tribunal, a rash one.”

Justice Hartmann said the Citron Report was presented in a hard-hitting ‘tabloid’ style, set out as a series of ‘Power Point’ presentations with a bold headlines of “fraudulent accounting” which the tribunal considered as described as being ‘frightening’ to the general investor.

The report stated clearly that Evergrande presented “a good short opportunity” while Left himself has short sold the shares from April, 2012, two months ahead of issuing the report.

The then SFC executive director of enforcement Mark Steward in March 2015 publicly spoken out about the crackdown on misleading research reports targeting locally listed companies.

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Justice Michael Hartmann’s
judgement report issued on Friday

“The investing public needs protection from the cynical use of false or misleading publications that drive down share prices for the wrong reasons and there should be accountability for shoddy research, especially when it affects stability in our markets,” Steward told a legal seminar.

China Evergrande Group, the country's second-largest developer, said last week it had bought nearly 7 per cent of Vanke from the open market, putting it in the position to use its clout to determine the outcome of Vanke's ownership.

The *South China Morning Post* on Friday contacted Left's lawyer and Evergrande for comment, but neither side replied.

Topics: China stock market

More on this: [Mainland business chiefs slam Citron Research over 'lies'](#) [4]

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